Chelsea, Michigan 81-7546

DEC 2 1 2004

12/17 LOCAL AUDIT & FINANCE DIV.

FINANCIAL STATEMENTS

August 31, 2004



Michigan Deptartment of Treasury 496 (2-04) Auditing Procedures Report

	ter P.A. 2 of		amended.		· · · · · · · · · · · · · · · · · · ·				
Local Gov	ocal Government Type ☐ City ☐ Township ☐ Village ☑ Other ☐ CHELSEA RECREA				ent Name RECREATION COU	NCIL	County WASH	SHTENAW	
Audit Date 8/31/04			Opinion 1 10/21			Date Accountant Report Sub 12/15/04	mitted to State:		
Financial We affirm We I We I	nce with the statement of the statement	the Stants for (plied with the stantage of t	tements of Counties and the the Bulletic caccountant	the Govern I Local Units in for the Au ts registered	mental Accounts of Governmental Accounts of Local Units of Local Units to practice in	-	(GASB) and the chigan Departmer	e <i>Uniform Rej</i> nt of Treasur) d.	RECEIVED DEPT. OF TRE
We furthe	er affirm th ts and rec	ne follov ommer	ving. "Yes" r ⊧dations	esponses h	ave been disc	losed in the financial sta	tements, including	g the notes do	licathea deingreofin
You must	check the	applic	able box for	each item b	elow.				
Yes	√ No	1. C	ertain comp	onent units/	funds/agencie	s of the local unit are ex	cluded from the fi	nancial statem	nents.
Yes	√ No	2. T	here are aco 75 of 1980).	cumulated o	deficits in one	or more of this unit's u	nreserved fund b	alances/retain	ed earnings (P.A.
Yes	✓ No	3. T	here are ins mended).	stances of r	non-complianc	e with the Uniform Acc	ounting and Bud	geting Act (P.	A. 2 of 1968, as
Yes	No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.								
Yes	Yes No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).								
Yes	√ No	6. TI	ne local unit	has been de	elinquent in dis	tributing tax revenues th	nat were collected	for another ta	axing unit.
Yes	✓ No	7. pe	ension benef	fits (normal	costs) in the o	utional requirement (Art current year. If the plan quirement, no contributi	is more than 100	0% funded and	the overfunding
Yes	✓ No	8. Th	ne local unit ICL 129.241	uses credi).	t cards and h	as not adopted an app	licable policy as	required by F	P.A. 266 of 1995
Yes	✓ No	9. Th	e local unit l	has not ado _l	pted an invest	ment policy as required	by P.A. 196 of 199	97 (MCL 129.9	5).
We have	enclosed	the fol	lowing:				Enclosed	To Be Forwarded	Not Required
The letter	of comme	ents an	d recommen	dations.		PAGE 15	1		
Reports o	n individu	al feder	al financial a	assistance p	rograms (prog	ram audits).			/
Single Au	dit Report	s (ASL	∃ U).						√
	blic Accounts	•	Name) PANY, CP	AS					
Street Addre						City	Sta M		603
Accountant S	Signature	50	U H OO I	6 0.7	inter		Da	te	-04
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INDEPENDENT AUDITORS' REPORT

Council Members Chelsea Recreation Council Chelsea, Michigan

We have audited the accompanying financial statements of the business-type activities as of and for the year ended August 31, 2004, which comprises the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Chelsea Recreation Council management. Our responsibility is to express an opinion on these financial statements based on our audit.

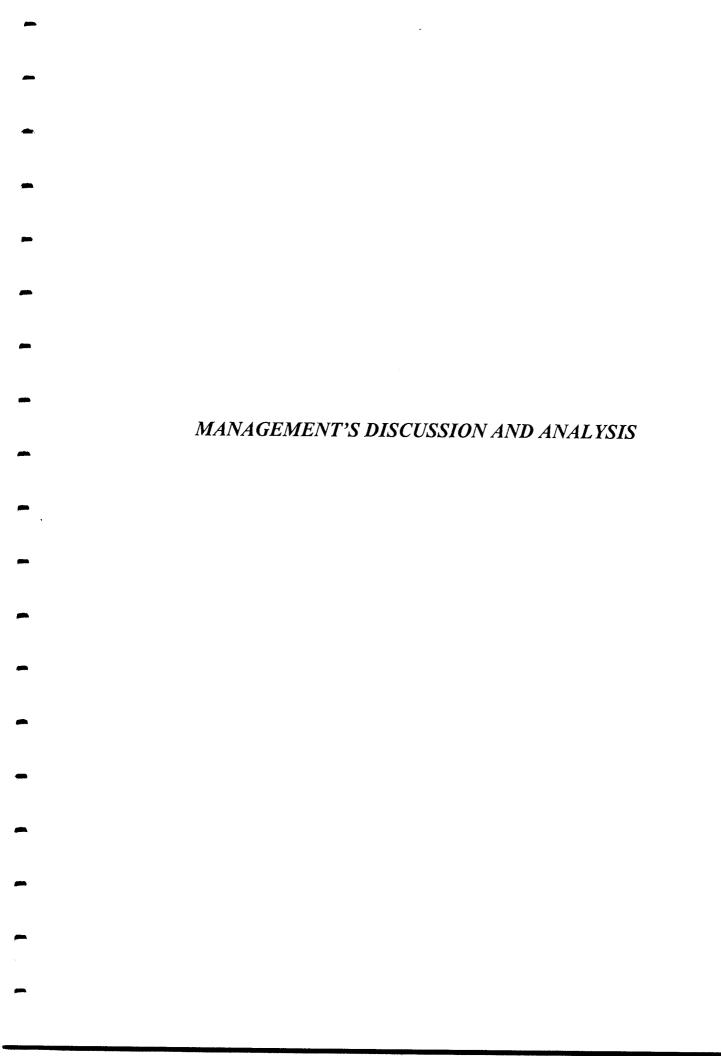
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Chelsea Recreation Council, as of August 31, 2004, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chelsea Recreation Council's, basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Berthain of Co.
October 21, 2004



MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Chelsea Recreation Council's financial performance provides an overview of the Council's financial activities for the fiscal year ended August 31, 2004. Please read it in conjunction with the Council's financial statements.

Chelsea Recreation Council as a Whole

The following table shows, in condensed format, the net assets as of the current date, for the year ended August 31, 2004 (amounts in thousands). In future years, this table will also present prior year information, as well as comparative data from the statement of activities. Since this is the first year of implementation of GASB No. 34 (see Note 1), prior year information is not available.

Assets:

Current assets Noncurrent assets	\$ 71
Total assets	71
Current liabilities	9
Net Assets: Invested in capital assets Unrestricted	-
Total net assets	\$ 62 \$ 62

The Council's combined net assets increased by approximately \$6,000 due to the overall increase in revenue of approximately \$28,000. Program fees revenue increased by nearly \$11,000. This was due to an overall increase in participants. Rates have not been increased. Sponsorship and royalty revenues increased by about \$7,000.

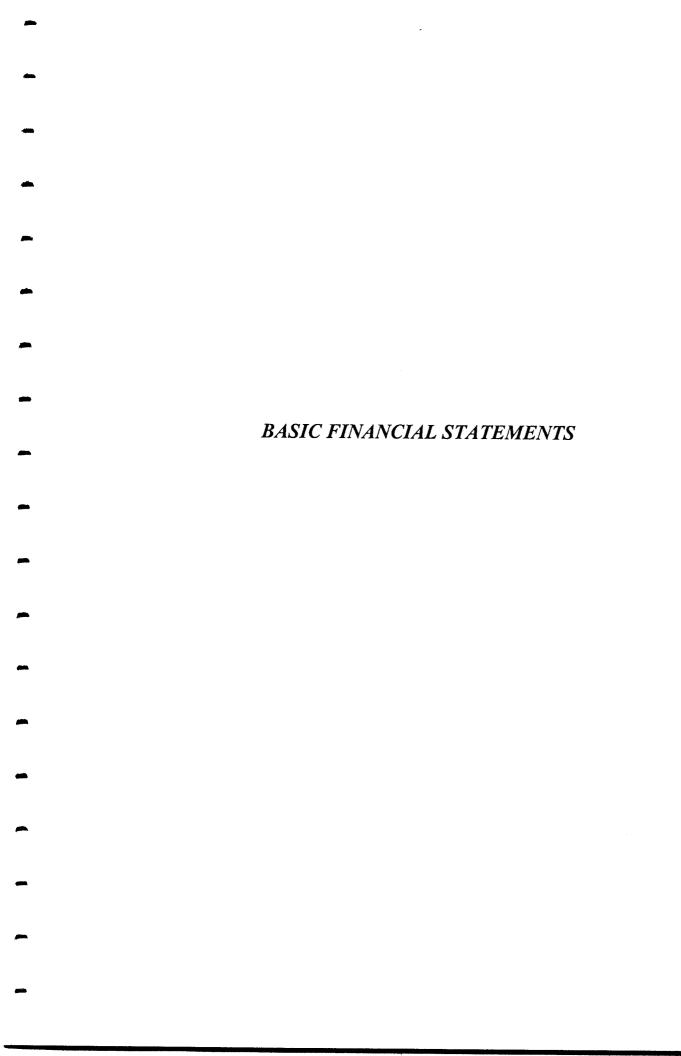
Overall expenses increased from the prior year approximately \$30,000. Booster expenses increased by about \$5,000, supplier/equipment expense increased about \$4,000, and salary and wages increased about \$15,000.

Economic Factors

The Chelsea Recreation Council's budget for next year calls for minor changes. No significant economic factors have been identified.

Contacting the Council's Management

This financial report is intended to provide our citizens, customers, and investors with a general overview of the Council's finances and to show the Council's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Council's office at P.O. Box 307, Chelsea, MI 48118.



STATEMENT OF NET ASSETS

August 31, 2004

A4	Business- type Activities
Assets: Cash and cash equivalents	¢ (2.651
Receivables	\$ 62,651 822
Inventory	7,657
Capital assets:	7,037
Depreciable capital assets, net	-
Total assets	71,130
Liabilities:	
Accounts payable	1,247
Deferred revenue	7,489
Total liabilities	8,736
Net Assets:	
Investment in capital assets, net of related debt	_
Unrestricted	62,394
Total net assets	\$ 62,394

STATEMENT OF ACTIVITIES

Year Ended August 31, 2004

Expenses:	Business- type Activities
Recreation programs	\$ 175,339
Program revenues: Charges for services	150,124
Operating grants and contributions: State grant United Way contribution	10,175 1,950
General revenues: Interest Sponsorships Royalty Other	593 13,180 3,663 1,607
Change in net assets, net (expense) revenue	5,953
Net assets, beginning of year	56,441
Net assets, end of year	\$ 62,394

STATEMENT OF CASH FLOWS

Year Ended August 31, 2004

	Recreation Programs
Cash flows from operating activities: Cash received from program participants	\$ 142,543
Cash payments to employees	(58,619)
Cash payments for goods and services	(117,256)
Net cash provided (used) by operating activities	(33,332)
Cash flows from non-capital financing activities:	
Contribution from United Way	1,950
Grant Sponsorships	1,500
Royalty	13,180
Other	3,663
	1,607
Net cash provided (used) by non-capital financing activities	21,900
Cash flows from investment activities:	
Interest	593
Net increase (decrease) in cash and cash equivalents	(10,839)
Cash and cash equivalents, beginning of year	73,490
Cash and cash equivalents, end of year	\$ 62,651

NOTES TO FINANCIAL STATEMENTS

August 31, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Chelsea Recreation Council, a recreation board, was established by the Village of Chelsea in 1971 under the provisions of public act 156 of 1917, as amended, to provide for the operation of a system of public recreation and playgrounds in cooperation with the Chelsea School District.

The accounting policies of the Chelsea Recreation Council conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Council. There are no component units. The Recreation Council is not a component of any other reporting entity.

Basis of Presentation - Fund Accounting:

The accounts of the Council are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Currently the council has only one business-type fund for its recreation program activities.

Basis of Accounting:

GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government. These type of statements usually distinguish between activities that are governmental and those that are business-type activities. The Council currently has only one business-type fund/activity.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Council's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The Council first utilizes restricted resources to finance qualifying activities. The Council currently has no restricted net assets.

The statement of activities reports both the gross and net cost of each of the Council's functions. The functions are also supported by general government revenues (certain intergovernmental revenues, if any, and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (interest income, etc.). The Council does not allocate indirect costs.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2004

The government-wide focus is on the sustainability of the Council as an entity and the change in the Council's net assets resulting from current year activities.

Program fees, grants, and other revenue, if any, associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The Council reports its only fund as a major governmental fund as follows:

<u>Recreation Fund</u> – The Recreation Fund is used to account for the revenues and expenses for the operation of the recreation program.

Assets, Liabilities and Equity:

<u>Deposits and Investments</u> – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments, if any, with a maturity of three months or less when acquired. Investments are stated at fair value.

<u>Inventories and Prepaid Items</u> – Inventory consists of supplies (bats, balls, helmets, etc.) and athletic equipment (nets, backboards, etc.) which are used and re-used in program activities. The Council reports its inventory at the lower of cost of fair value. The fair value of the inventory, which is lower than original cost, is estimated at 25% of its current replacement cost. Certain payments to vendors reflect costs applicable to future fiscal years and may be recorded as prepaid items in the financial statements.

<u>Capital Assets</u> – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets, if any, are recorded at their estimated fair market value at the date of donation. The Council defines capital assets as assets with an initial individual cost in excess of \$250. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Office equipment is depreciated using the straight-line method over the following useful lives:

Furniture and other equipment

5-10 years

<u>Compensated Absences</u> – Employees are not allowed to accumulate vacation and sick pay and therefore, no accumulated amount has been reported in accordance with Governmental Accounting Standards Board's Statement No. 16 "Accounting for Compensated Absences."

<u>Long-term Obligations</u> – In the government-wide financial statements long-term debt and other long-term obligations, if any, are reported as liabilities in the applicable business-type activities statement of net assets. Currently the Council has no long-term obligations.

<u>Deferred Revenue</u> – The government-wide full accrual financial statements report deferred revenue in connection with revenue that has not been earned since it related to advance collection of program fees for programs which will be provided subsequent to the end of the current fiscal year. Also, grant monies received that have not been expended are reported as deferred revenue.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2004

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Accounting Change:

GASB Statement No. 34:

GASB Statement No. 34 - Effective September 1, 2003, the Council implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. Changes to the financial statements as a result of GASB No. 34 are as follows:

A Management Discussion and Analysis (MD&A) section providing an analysis of the Council's overall financial position and results of operations has been included.

Government-wide financial statements prepared using full accrual accounting for all of the Council's activities have been provided.

Business-Type Fund:

In previous years the Council reported its recreation activities as a "governmental" fund type. Effective September 1, 2003 the Council has changed the reporting of the recreation program to an "enterprise business" type activity. The change was prompted by GASB No. 34 which requires that an enterprise/business-type fund must be used for an activity in which "the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service)."

Inventory and Fixed Assets:

Athletic Supplies and Equipment – In previous years the athletic supplies/equipment owed by the council was reported on the financial statements in the General Fixed Asset Group of Accounts. Because of the GASB #34 implementation this year, it was determined that the athletic supplies and small equipment (bats, balls nets, goals, backboards, etc.) should be reported as "inventory." Typically inventory of an enterprise is reported at cost until sold or disposed of. The Council's athletic supply/equipment inventory, like a fixed asset, is used in the recreation program for more than one season and does decrease in value as a result. Therefore it was determined that presenting the amount of this inventory at the lower of cost or current fair value was an appropriate accounting principle to apply. The Council believes that this accounting method accurately results in reporting the change in inventory value each year. The Council has determined the accurate policy/procedure for this year and the future will be to value the year-end inventory at 25% of replacement cost.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2004

Inventory and Fixed Assets, continued:

Office Equipment and Furniture – The Council has, since its inception in 1971, acquired some office equipment and furniture. These items were previously reported in the General Fixed Asset Group of Accounts. The Council has determined that the approximate cost value of these assets as of September 1, 2003 was \$5,000 and these assets should be reported as fully depreciated as of August 31, 2004 because they are, on the average, more than five years old.

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Council's cash is comprised of bank deposits that are reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$65,039. The entire amount was covered by federal depository insurance.

The Recreation Council's deposits are in accordance with statutory authority. The organization does not have any investments.

NOTE 3: CAPITAL ASSETS

Capital assets activity of the Council's business-type activity was as follows:

	Balance Sept. 1, 2003	Additions	Disposals and Adjustments	Balance Aug. 31, 2004		
Business-type activities: Recreation capital assets: Capital assets being depreciated Office furniture and equipment	\$ 5,000	\$ -	\$ _	\$ 5,000		
Subtotal	5,000	-	-	5,000		
Accumulated depreciation	5,000	-		5,000		
Net recreation capital assets Net business-type capital assets	<u> </u>	<u> </u>	<u> </u>	<u> </u>		

Depreciation expense was charged to programs of the primary government as follows:

Business-type activities:									
Recreation	\$								
Total business-type activities	\$								

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2004

NOTE 4: RISK MANAGEMENT

The Council is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Council manages its liability and property risk by participating in Michigan Municipal Risk Management Authority, a public entity risk pool providing property and liability coverage to its participating members. The Council pays an annual premium to Michigan Municipal Risk Management Authority for its insurance coverage. The Michigan Municipal Risk Management Authority is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Council manages its workers' compensation insurance by participating in Michigan Municipal League, a public entity risk pool providing workers' compensation coverage to its participating members. The Council pays an annual premium to Michigan Municipal League for its insurance coverage. The Michigan Municipal League is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based coverage for each incident to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Council manages its health insurance by participating in MCare, a private health care provider. The Council pays monthly premiums to MCare for its health insurance coverage.

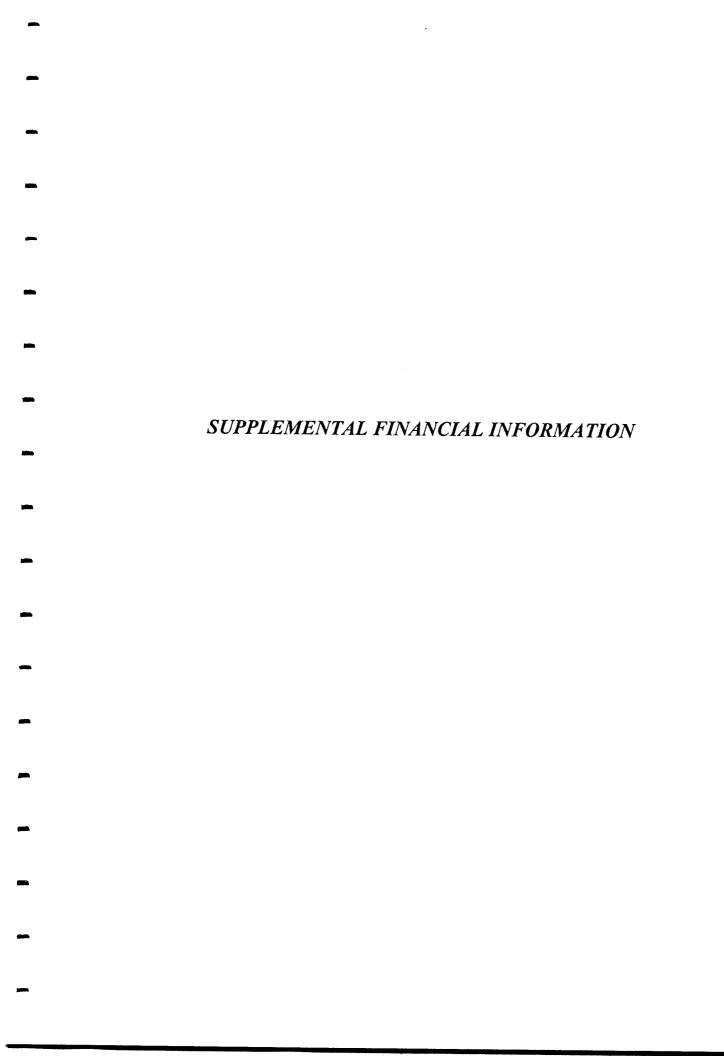
NOTE 5: POST EMPLOYMENT BENEFITS

The Council does not currently provide any post employment benefits.

NOTE 6: DEFERRED REVENUE

Deferred revenue as of August 31, 2004 consists of the following:

Program fee receipts during August 2004 that are for the fall 2004 programs Grant revenues that were not yet spent as of August 31, 2004	\$ 4,659	
Total	\$ 2,830 7,489	



DETAILED STATEMENT OF PROGRAM EXPENSES

For the Year Ended August 31, 2004

DIRECT RECREATION PROGRAM EXPENSES:

		Fall ograms		Vinter ograms	Spring Programs	Su Pro	mmer grams		ooster Camps	Other Expenses	Total
Advertising	\$	1,009	\$	384	\$	\$	100	<u> </u>	100		
Awards	•	-,005	Ψ	J04 -	266	Ф	180	\$	108	\$ -	\$ 1,681
Boosters		1,396		341			100		<u>-</u>	80	446
Supplies and equipment inventory		1,370		341	1,436		-		9,440	-	12,613
expense		326		556	659		25		427	6,647	0 (10
Clinic camp payouts		-		26	26		274		100	•	8,640
Clinic instructors		564		1,028	175		4,482		6,260	-	426
HS Helpers		516		1,746	539		-, 102		-	-	12,509
Officials		816		_	10,245		_		1,965	-	4,766
Other		_		198	1,172		257		-		11,061
Portable lavatory		203		170	655		357		-	2,352	4,079
Refunds		654					-		-	-	858
Set-up costs		795		700	1,337		621		1,363	-	4,675
Site supervisors				-	2,152		-		-	-	2,947
Supplies		356		150	200		-		-	-	706
Γ-shirts		614		496	3,193	1	1,793		-	297	6,393
	•	4,717		3,041	6,464		402		887	873	16,384
Fournament fees		215		695	-	_	-		-	5/5	910
Total direct program expenses	12	2,181	9	,361	28,519	8	,234	2	0,500	10,249	89,094

INDIRECT AND ADMINISTRATIVE PROGRAM EXPENSES:

- 110 OKLENI EXI ENGES.	
Advertising	
Audit and accounting	4,983
Bank and credit card charges	2,420
Capital outlay	1,586
Dues and fees	100
Depreciation	912
Insurance liability & WC	-
Office supplies and other expense	2,968
Other administrative expense	2,426
Postage	1,317
Rent office	815
Rent storage	3,521
Salaries and wages	836
Taxes payroll	58,619
Telephone	4,338
Table 11 11 11 11 11 11 11 11 11 11 11 11 11	1,404
Total indirect and administrative expense	96.245
Total regression was	86,245
Total recreation program expense	\$ 175,339



60 Harrow Lane Saginaw, Michigan 48603

(989) 791-1555 Fax (989) 791-1992

MANAGEMENT LETTER

To the Council Members Chelsea Recreation Council Chelsea, Michigan

We have audited the general purpose financial statements of the Chelsea Recreation Council, Chelsea, Michigan, as of and for the year ended August 31, 2004, and have issued our report thereon dated October 21, 2004. As a part of our audit, we made a study and evaluation of the Recreation Council's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing, and extent of other auditing procedures that are necessary for expressing an opinion on the general purpose financial statements and to assist the auditor in planning and performing his audit of the general purpose financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing general purpose financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of general purpose financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the

Our audit of the general purpose financial statements made in accordance with generally accepted auditing standards, including the study and evaluation of the Recreation Council's system of internal accounting control for the year ended August 31, 2004, that was made for the purposes set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data. Our study and evaluation disclosed no conditions that we believe to be material weaknesses.

We express our appreciation for the courtesies and cooperation extended to us while conducting the audit.

Berthiaume & Company Certified Public Accountants

October 21, 2004